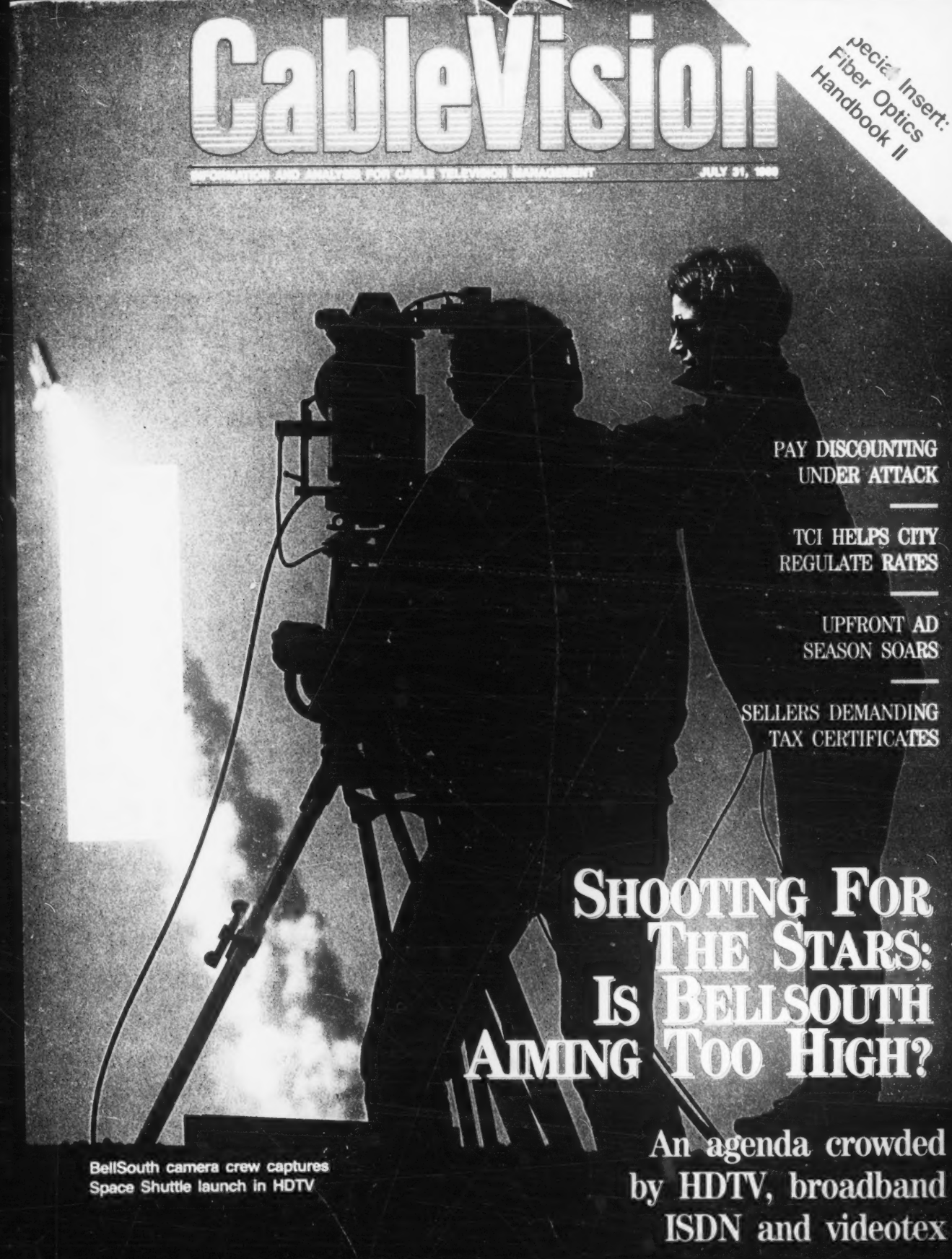


CableVision



INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT

JULY 31, 1999

Special Insert:
Fiber Optics
Handbook II

PAY DISCOUNTING
UNDER ATTACK

TCI HELPS CITY
REGULATE RATES

UPFRONT AD
SEASON SOARS

SELLERS DEMANDING
TAX CERTIFICATES

SHOOTING FOR THE STARS: IS BELL SOUTH AIMING TOO HIGH?

BellSouth camera crew captures
Space Shuttle launch in HDTV

An agenda crowded
by HDTV, broadband
ISDN and videotex

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INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT JULY 31, 1989

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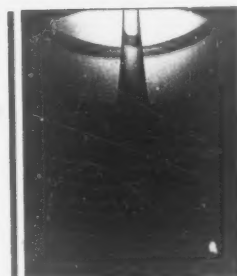
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ITCI

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ABP BPA

The CABLE POLL

Midwest CATV & CableVision Magazine

Bouyed by past marketing gains, systems increase budgets by 19%

Encouraged by stepped-up marketing efforts that mostly met or even exceeded their expectations in attracting and upgrading subscribers, cable systems this year typically are allocating double-digit increases in marketing budgets, according to data from the Cable Poll™.

While the data indicate that all cable systems, large or small, are shifting greater resources into marketing, the trend is most pronounced among those with 50,000 or more subscribers. Among those systems, 69 percent plan to spend more on marketing this year than in 1988, itself a year of large marketing expenditures, and nearly half of those larger systems—45 percent—say the 1989 increase will be between 11 and 20 percent. The mean increase in marketing budgets this year for those systems is 19 percent.

Commenting on the data, CFAM President Margaret Durborow said it indicates that the industry now realizes that, as penetrations increase, "more and more marketing must be done to achieve real growth."

"Finally we as an industry are realizing we are marketing-driven," Durborow said. "The reality is that in the retail environment, you have to continue bringing new customers in, and across the board most are coming to the understanding that it takes money to make money." And given that most Cable Poll™ respondents say their previous marketing efforts have met or exceeded expectations, "They're beginning to see that if you invest, you get a payback," she said.

While larger systems have been in the forefront in marketing, the data indicate that smaller systems are catching up. While no systems with more than 50,000 subscribers reported increases in marketing budgets this year of as much as 30 percent, 18 percent of systems with between 10,000 and 50,000 subs said they will be spending between 21 and 30 percent more, and 15 percent of systems with fewer than 10,000 subs said their marketing budgets are that much higher.

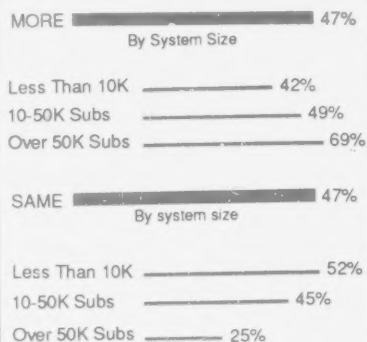
The Cable Poll™ is a sampling of industry opinion conducted on a regular basis by Ryan/Samples Research Inc. for Midwest CATV and CableVision magazine. Telephone interviews for this edition of the poll were conducted March 12-23; a total of 400 interviews were completed using a listing of system management personnel obtained from CableFile Research. Cable Poll™ researchers are 95 percent confident that the results are accurate within plus or minus 4.9 percentage points. ■

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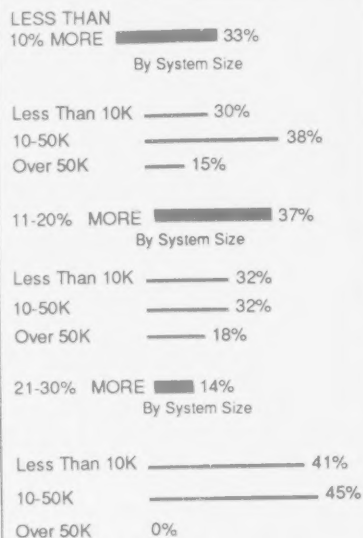
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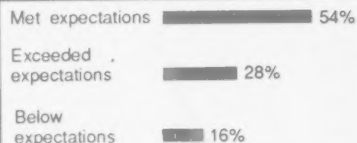
Will you be spending more on marketing this year, or about the same?



In percentages, how much more will you be spending?



Are you satisfied with the results of your marketing plan?



PROGRAMMING

Is it time to move beyond pay discounting tactics?



By Wayne Friedman

First Quarter Pay Activity

	First Quarter '89	First Quarter '88	Total (5/31/89)
Showtime	279,000	157,000	6,962,000
Cinemax	130,000	100,000	6,030,000
HBO	85,000	185,000	16,885,000
Disney	65,000	50,000	4,150,000
The Movie Channel	3,000	4,000	2,683,000
Playboy	-23,000	-25,000	440,000

Source: Paul Kagan Associates

Pay network executives have been enthusiastic about price incentive marketing ever since the 1988 numbers came in showing that such campaigns contributed to a double-digit gain in pay units. But lately operators have begun complaining that deep discounting and free offers aren't working as well as they used to, a restiveness stemming largely from disappointing first- and second-quarter results at several MSOs.

Many operators believe that price incentives, crucial to pay growth in times past, now are losing their effectiveness. But network executives counter that operators' 1989 basic rate increases are stunting pay marketing efforts, which include free-month trial offers and reduced-price or free installation deals. Operators say that while rate increases are partially to blame for the erosion in pay growth, better "value-oriented" marketing efforts are needed, whether from their own in-house campaigns or from the networks.

There is no question that discounting and free-trial offers in the past have worked in selling more pay units. According to the Motion Pictures Association of America, pay subscriptions rose 10.1 percent in 1988 to 37.2 million. That was a great improvement over the four percent gain pay saw in 1987 over the previous year. And looking at

first quarter 1989 numbers, pay appears to be moving down the same path.

According to Paul Kagan Associates, pay gained 539,000 subscribers in the first quarter versus a 471,000 gain for the same period a year before. Showtime posted the biggest percentage gain, adding 77 percent more subscribers in the period compared to a year ago—279,000 units compared to 157,000. Cinemax and The Disney Channel were up 30 percent over last year's sub gain. Only HBO's growth rate was off, down 54 percent, adding 85,000 subs versus 185,000 a year ago.

In spite of the general robustness of these numbers, they are a drop in the overall pay bucket. Many top MSO executives express concern that pay's overall performance is flat or slightly lower than in the first quarter of 1988. This profile comes from such MSOs as Comcast, ATC, Warner, Jones Intercable, Continental and Heritage.

"It's been a real struggle to show any growth and keep things on a even keel," says Ted Livingston,

senior vice president of marketing for Continental Cablevision. To rectify this sluggishness, Livingston says, current and future pay promotions in Continental systems won't offer many free or half-price trial offers. Instead, Continental will push free installations.

"We don't think in the long run (a free offer) pays off. It's expensive to do. And there is rolloff. Over the long term it decreases the value of the pay services," he says.

"We are going to tone down the offers," says Lowell Hussey, senior vice president of sales, marketing and programming for Warner Cable, adding that "We have strategic concerns about discounts." Still, Warner did benefit from such promotions. Over the last nine months Warner bombarded the market with aggressive marketing techniques relying on free-trial offers, and garnered a total of 128,000 new pay units.

Even against this backdrop, Hussey feels the market is becoming more resistant. Excluding its newbuild in Brooklyn and Queens, New York, Warner's total pay category grew in the 1-2 percent range in the first quarter of this year, or 20,000 subscribers, compared to the addition of 34,000 pay units in the same 1988 period. "At some point the marketplace just says 'no' to offer after offer after offer," Hussey says.

Jones Intercable has had a similar experience. John Mathwick, group

vice president of marketing, says that where the MSO's pay category grew by 2-3 percent in the first quarter of 1988, it achieved only a 1 percent gain in this latest period. He says it's a two-part problem. First, pay incentives: "We have run out of gas on this effort," says Mathwick. Second, "it's a structural issue" involving CSRs. To correct some of these problems, Jones is boosting its effort to better educate CSRs in selling and retaining pay customers.

Prime Cable in Atlanta showed no pay growth last quarter in its 166,000 sub system, according to William Proud, vice president of marketing. Proud feels the market has burnt out on pay discount promotions. This year Prime didn't run any pay campaigns in May and June where it had done so in the past. "We felt it wasn't working that much in 1988. But what's happening now is I've gotten a case of executive amnesia. Starting in September I'll do a 99 cents first month for HBO."

While many operators are becoming disenchanted with their pay promotions, there are no viable alternatives on the horizon. "The industry has gotten to the point where we put 10,000 pay units on one month and 8,000 are off in the next month," says Proud. "What has happened is that (operators) are not doing as many promotions and they are not seeing any growth. Nobody has come up with 'Plan B.'" Such a "Plan B," Proud and others say, might be through image or "brand awareness" advertising. HBO has been test-marketing this approach recently, as well as some operators, including Warner Cable. But those kinds of efforts are for the long-term.

Some believe that basic price hikes usually implemented in January contributed to the first quarter's lower pay unit equation. Some marketing executives believe that increases in basic prompts customers to drop pay services to keep their total monthly payment fairly con-

stant. Increases in basic averaged anywhere from five to 15 percent in Continental systems this year, and may have contributed to a "flat" pay category for the first quarter, says Livingston.

Jones Intercable took a similar 5-10 percent rate increase for basic at the beginning of the year. But Mathwick says this isn't the reason for the slowdown. "You don't lose 10,000 pay units because of basic increases," he says.

While some operators complain about the pay business, others are all smiles. Jerry Maglio, senior vice president of marketing for United Artists Cable, says his first-quarter numbers are higher due to a substantial amount of pay network and in-house promotion. Likewise, Peter Low, director of programming at Cablevision Systems, says contrary to what he has been hearing from other operators, pay has been growing "strongly" in his systems. But then, Cablevision always has had a

A discounting case study: 'We are already at a plateau'

When Vincent King thinks about pay cable incentives, he thinks about turkeys.

Some years ago while working for Cox Cable, he and other marketing executives came up with a idea of giving away turkeys to subscribers in the fourth quarter, a historically hot time for pay, as a lure to sign up for any pay service. But the relationship of turkey to pay endured only as long as one's appetite, he says. "After the last turkey sandwich is gone, they disconnect," says King, president of ACI Management, a 33,000 MSO with systems in the South and Southwest.

ACI's pay numbers were flat in the first quarter, year-to-year. But in

contrast to many MSOs, King says ACI hasn't had any basic price increases in almost two years. Compounding the situation is that King religiously used marketing tools provided by HBO, Showtime and The Disney Channel—i.e. incentives, free-month trials—during this period. He can only reason that the problem is part economic, part geographic: "It's a recession (here). I don't care what Washington is calling it."

It's not as though King isn't doing his job. As pay networks have implored, he pushed for lower retail prices. Four years ago he struck a deal with Showtime so that he could drop ACI's retail price to a very reasonable \$5 per month. While this

has made Showtime a big winner in penetrating the market—it has achieved an extraordinarily high 34-35 percent penetration rate versus a nationwide average in the high teens—King says Showtime is a "loss leader." And for the first quarter Showtime was flat compared with the same period a year ago. "We are already at a plateau," he says.

As a result, he doesn't believe incentives are the answer. The answer is still the overall pricing package of cable, which in his markets seems to be the \$20 level for basic and one pay. "We are becoming more sensitive to rate increases," he concludes.

—Wayne Friedman

different philosophy when it comes to selling cable.

"We've always sold top down," says Low, a strategy which equates to heavy packaging of pay with basic first—not in selling basic with the hope of adding pay units later. And how does Cablevision keep subscribers hooked onto pay? CSRs do their share; constant, aggressive pay promotions and monthly direct mail does the rest. "We have always been enthusiastic with pay marketing. It works," says Low.

Marketing executives have complained that free-month offers only add to the pay networks' historically bad churn problems. Low disagrees. "The net takeout from the aggressive campaign is significantly more than a non-aggressive campaign. If we lose an incremental six percent (though aggressive marketing), we're selling in and holding 30 percent, so you are net 24 percent ahead. And total pay dollars per campaign are considerably higher."

Pay networks concede that price discounting might just be a necessary evil. In recognition of some problems, pay networks, starting last year, cut back on the simple free offers. Instead, many are running half-price deals, such as offering a pay at \$4.95 a month for three months. The logic here is that almost anyone will take something for free, but at half-price a typical customer is buying with the perception that pay is of some determined value, enough value to stick around after the offer ends. As always there are exceptions. John Adduci, director of marketing and programming for Adelphia Communications, says that although he gained some 12,000-13,000 subscribers in the first quarter of the year, "the second quarter was disastrous." He adds: "The discount pay programs don't hold the customer."

Network officials see basic price

increases, not the discount promotions, as the main cause for current pay headaches—something for which they believe operators themselves should be held accountable. "I think we got hurt by rate increase activity," says Matt Blank, executive vice president of marketing for Showtime

Networks. "We may be encountering a little more resistance in the marketplace. But that tells us we need to be marketing hard and fast. Maybe they didn't protect pay pricing coming off of a strong pay television year. My concern is that this doesn't become a self-fulfilling



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Greater Media	Prime Cable
Columbia International	Post-Newsweek Cable
Sutton Capital	Lenfest Group
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prophecy. There is no long-term indication that pay business is off. The verdict is still out."

While the cable consumer jury ponders whether pay will be of increasing value in the future, the internal structure of each network could be eroding. "You can do this only for so long," says Steven Rosenberg, president of Rose Media, a West coast consultant, concerning price discounting. "And then the internal audit person says, 'We are not going to make any money doing this,'" he says, especially against an environment with rising movie license fees and higher sport rights.

"The pay networks have been running a volume game for years," says Rosenberg. "They have been discounting so heavily because the

"You can do this only for so long. And then the internal audit person says, 'We are not going to make any money doing this.'"

— Consultant Steven Rosenberg

channel space—the real estate—has been worth so much to them. The idea is that later they can upgrade those homes."

Pay networks are hoping that becomes a reality. Because as more and more basic networks mimic original programming efforts

by the pays, consumers tend to see less of a distinction between the two. Pay-per-view is also a factor.

"Basic is getting so strong," says Rod Thole, executive vice president of Heritage Communications. "When the HBOs first came on the scene you didn't have USA Network doing 24 world premiere movies, you didn't have TNT with the MGM library. So the customer says, 'Wait a minute? I can get by with just basic.'"

"We are at the point now where pay needs to be repriced at the wholesale and retail level," Thole continues. "The pay category, while certainly not in trouble, is changing. And if PPV comes on strong in the next several years, it'll change more. There is a real question whether all these pay services can survive a few years out." ■

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Although it supposedly doesn't exist, cable upfront ad season is doing well

By Wayne Friedman

Top Five Basic Cable Network Net Ad Revenues (in millions)

	1988	1989	(est) Change
WTBS*	223.0	256.4	15 percent
ESPN	125.0	147.5	18 percent
CNN	111.3	133.6	20 percent
USA	97.2	136.1	40 percent
MTV	78.0	89.0	14 percent

Source: Paul Kagan Associates

* includes local ad sales of WTBS-TV Atlanta

Some advertising executives say there's no such thing as a cable upfront season—you can buy cable anytime. While that's still mostly true, more agencies and clients are buying cable networks on a year-long or quarterly schedule.

During this summer period, cable networks are reporting anywhere from 25-50 percent of their inventory is being booked as the result of this strategy. This trend for establishing a cable upfront selling season actually began two years ago. This year, Robert Alter, president and chief executive officer of the Cabletelevision Advertising Bureau, says the cable upfront could be the largest ever—pulling down \$400 million versus \$200 million a year ago. Alter estimates that the cable networks could bring in \$1.5 billion overall for 1989.

For some networks, cable's upfront activity started in June and could last through September. Some networks anticipate more business being written now because the broadcast network's primetime upfront season is over. Advertisers make "upfront" deals to secure better prices for programming throughout the broadcast or cable season.

Doug McCormick, senior vice president of advertising sales for Lifetime, estimates that by the time this upfront season is over, 50 percent of Lifetime's inventory will be sold for the 1989-90 season. McCormick says

so far business is running 40 percent over last year's upfront activity, which began in July and will close out by the end of September. One of the new twists this season, says McCormick, is a new perception of the network by packaged product advertisers: "It used to be two must-buys, USA Network and WTBS. I would say now there are three must-buys—Lifetime, USA and WTBS," says McCormick. Packaged product companies usually dominate the upfront television selling season—in Lifetime's case for its heavy women's viewership.

Dick Hammer, vice president of advertising sales for The Family Channel, says he has been closing upfront deals since June, when cable kids programs were moving. Hammer says in contrast to a weak upfront season for the network last year, The Family Channel plans to book up to 40 percent of its business during this upfront season. Last year the network's net ad revenue (after

agency commissions) totaled \$46.8 million. Right now, Hammer says, the network is up 22 percent over last year. "We got caught last year—not being in the upfront. We were late getting our programming done," he says. He's hoping to pull down \$70 million for the entire year.

Over at A&E Network, Larry Divney, vice president of advertising sales, expects to do 25 percent of A&E's total advertising business in the upfront versus 10 percent a year ago. According to some estimates, that would amount to \$7 million to \$8 million in sales. A&E could total \$30 million overall for 1989, some \$8 million more than last year.

One of the major moves of this season is that the big Leo Burnett agency in Chicago plans to spend more on cable. The Family Channel's Hammer reports that it wants to do an "agency" deal where it buys spots in big quantities across a number of networks. One Burnett executive wouldn't comment but did say that because some networks for some dayparts have been sold out in the first, second and third quarters, the impetus now exists to buy cable early.

Agency deals are done to secure a lower cost per thousands (CPMs). "It's an advantage that we can get major dollars for the year (from agencies)," says Hammer. However, he will not sell the agency the network's original programming. ■

Subscriber Count

Basic services

Bonus basic services

Pay services

Audio services

Text services

Computer services

DBL - MarketWatch	462	9,200,000
X*Press Executive	487	14,000
X*Press X*Change	487	14,000

Non satellite-fed national services

Basic services	Affiliates	Subscribers
Cable Video Entertainment	190	18,000,000
Consumer Classified Ad Network	3	195,000
Fun Network	3	12,000
Vector Consumer News	5	200,000
Vector Consumer Shopping Guide	9	325,000

Pay services

Support Golden Network	13,000
------------------------	--------

Interactive services

Basic services	Affiliates	Subscribers
Video Jukebox Network	15	848,000

Regional services

Basic services	Affiliates	Subscribers
Arizona Sports Programming Network	N/A	210,000
Atlanta Interatch	7	180,000
Bis. A/C Religious Channel	6	113,000
Cable TV Network of New Jersey	34	1,396,451
The Evangelical Channel	9	170,000
KBL Entertainment Network	67	1,200,000
Late Newsvision	35	50,000
Madison Square Garden Network	112	2,400,000
Meadows Race Network	14	660,000
News 12 Long Island	4	594,000
Norwalk Frontier Sports Network	13	800,000
Norwalk Cable Sports Network	3	700,000
Pennsylvania	28	750,000
Prime Cable	9	381,938
Prime Sports Network	11	300,000
Prime Ticket	115	3,500,000
Sports Channel (Chicago)	50	1,507,270
Sports Channel (Ohio)	2	280,000
Spying Network	200	2,310,000

Pay services

Home Sports Entertainment	250	1,000,000
Home Team Sports	125	1,200,000
New England Sports Network	171	317,201
ProAm	87	427,000
Pro Am Sports	173	523,000
Sports Channel Florida	22	650,000
Sports Channel New England	154	1,028,431
Sports Channel New York	100	1,300,000
Z Channel	73	110,000

Note: Figures for affiliate subscriber counts will be updated quarterly unless information is provided by the service. Send information to: CableVision, Cable Stats, 345 Park Avenue South, 9th Floor, New York, NY 10010.

N A denotes information not available.

*Includes MMDS and SMATV systems

**Count represents standalone affiliates subscribers; portions of SC America are

***Spanish-speaking households.

Announced services

Satellite-fed services	Expected launch
American Maritime Network	4th Quarter 1989
Day Area Network	8/86
Cancer Charity Network	11/86
U.S. Mc. The United Music Network	4th Quarter 1989
The Campus Channel	9/89
Digital Cable Radio	4th Quarter 1989
Digital Radio Channel	4th Quarter 1989
The Gaming Network	1st Quarter 1990
The Global Channel	1st Quarter 1990
TV-52 Satellite Network (MTV)	1st Quarter 1990
HBO Satellite Channel	4th Quarter 1989
Interstate Cable Network	3rd Quarter 1989
Kodi Information Network	4th Quarter 1989
The Language Family	1st Quarter 1990
Music Entertainment Network	8/89
Mobile Video News Network	4th Quarter 1989
Music Image Channel	11/89
QVC Network II	7/90
The S. T. Channel	4th Quarter 1990
Sports TV News Network	4th Quarter 1990
Link Television	4th Quarter 1989
U.S. News	8/89

Non satellite-fed services

At 15	3rd Quarter 1989
At 20	3rd Quarter 1990
At 25	4th Quarter 1990